VZCZCXRO1596
RR RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHME #1862/01 1801602
ZNR UUUUU ZZH
R 291602Z JUN 09
FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC 7150
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHAAA/NSC WASHINGTON DC
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE

UNCLAS SECTION 01 OF 04 MEXICO 001862

SIPDIS
SENSITIVE

STATE FOR WHA/MEX, WHA/EPSC
STATE FOR EEB
USDOC FOR 4320/ITA/MAC/WH/ONAFTA/GWORD
TREASURY FOR IA
ENERGY FOR WARD, LOCKWOOD AND DAVIS

E.O. 12958: N/A
TAGS: ECON EFIN ETRD ENRG ELTN EAIR PGOV SENV MX
SUBJECT: Mexico Economic Weekly - June 26

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

¶2. (U) Table of Contents:

TRADE AND INVESTMENT:

¶3. (U) SUPPLY CHAIN REACTION: Auto suppliers have tended to locate along the Texas border in Mexico, providing swift access to auto plants in the Midwestern region of the US, with 31% of total employment hours dedicated to the transportation sector in the Tamaulipas border region. However, as the US manufacturing industry went into a steep decline in 2008, the Mexican transportation sector also went into a free fall. One local account stated that auto parts producers have seen production levels fall an average of 40%, laying off numerous workers and contributing to a 5.3 percent decline in employment in Tamaulipas over the last 12 months. (Matamoros)

¶4. (U) MARY KAY CONSIDERS MOVING PRODUCTION TO MEXICO TO AVOID RETALIATORY TARIFF: The Director General of Mary Kay Mexico confirmed to the media on June 25 that the health and beauty products manufacturer is investigating the feasibility of producing its line of cosmetics in Mexico, or importing these products from China, in order to avoid the 15 percent tariff imposed on such products from the United States. Cosmetic products were one of 89 products totaling $2.4 billion in imports that was hit with a retaliatory tariff by the GOM in March 2009 in order to evoke action by the USG to replace the cancelled Cross-Border Demonstration Trucking Project. Mary Kay estimates this tariff has caused an additional cost of $450,000 per month to bring these products from its

production facility in the United States (its other production plant is in China). The Director General said that Mary Kay will not try to block the action by the GOM, and Mary Kay will not raise its prices in Mexico to compensate for this additional incurred cost. "We know that this is a problem that is affecting many industries, but we believe the authorities are going to work on this issue in order to resolve it favorably," he told reporters. Mary Kay has a production facility in Dallas Texas that employs 800 workers. Moving production to Mexico would affect truck drivers who would no longer be needed to haul goods from Dallas to the warehouses in McAllen. (Mexico City)

¶5. (U) NUEVO LEON'S LATEST INTERNATIONAL TRADE NUMBERS: From January to April of 2009, exports in Nuevo Leon fell 23% compared to the previous year. Compared to the country as a whole where exports fell 25%, Nuevo Leon performed slightly better. Exports across all of Nuevo Leon's exporting sectors were weak. However, in April there was a sharp 35% increase in automotive exports which was largely driven by trucking parts manufacturer Navistar and car engine block manufacturer Nemak. In the heavy electric machinery sector, sales are off 37% compared to 2008. Unlike the automotive sector, sales continue to deteriorate on a month to month basis affecting American companies such as GE Electrical, Thomas & Betts, and Cooper Lighting. (Monterrey)

ECONOMY AND FINANCE:

¶6. (U) AMERICAN CHAMBER OF COMMERCE CHIEF ECONOMIST'S PREDICTS 6.2% FALL IN GDP: In June 16-17 presentations in Saltillo, Coahuila, and Monterrey, Nuevo Leon, the American Chamber of Commerce's Chief Economist, Deborah Riner, provided her latest forecasts for the Mexican economy. According to Riner, Mexico continues to be severely hurt by the recession because of its ties to the United States. The international fall in demand hit all

of Mexico's major exports - cars, TV's, manufactured goods, and oil. Mexican GDP will fall around 6.2%, much worse than Riner's 1% fall in GDP prediction in February and similar to the 1995 recession. However, there are major differences in Mexico's current economic situation - i.e., a low level of inflation, a relatively stable currency, and strong international reserves (with access to additional funds from the IMF and U.S. Federal Reserve) -- that will make this recession less traumatic than in 1995. In addition, Riner predicted the country-s road to a complete recovery will be much slower than the previous recession because it will not be able to rely on a quick recovery of exports. A full recovery will also depend on fiscal reform - lower dependence on oil revenues, increased tax collection, and increased competitiveness. (Monterrey)

¶7. (U) CALLS TO SUSPEND FLAT TAX GROW IN MONTERREY: In Monterrey, increases in job losses and falling sales have united businessmen and politicians from the two main parties against the national flat tax (IETU). On June 16, PRI candidates for the federal congress, not usually known for their desire to lower business taxes, all signed an agreement to work to suspend the IETU on the grounds that such a move would help with employment and protect small and medium sized companies. The PRI candidates joined in on similar proposals already made by the PAN party and CANACO, a business group. The IETU was implemented in 2008 by President Calderon in an effort to increase tax collection from businesses. However, since the IETU taxes revenues (i.e. not profits), it compounds the effects of the recession on businesses, further dampening economic growth. (Monterrey)

¶8. (U) SOME POSITIVE ECONOMIC NEWS FOR BAJA CALIFORNIA'S INDUSTRIAL SECTOR: The president of Sony in Baja California, Takahiro Kawamura, announced June 19 his firm will generate nearly 1500 new jobs in the state this year. Sony already has significant operations in Baja and plans to expand, leasing an additional 400,000 square

feet of industrial space. Also, Sempra Energy's subsidiary in Baja California announced that, despite the economic crisis, the firm does not plan any staff cuts in Mexico. Sempra employs 200 people in Baja. This positive news comes amid a downturn in industrial output in the region, though the outlook for the industrial sector is mixed. In the first quarter of 2009 in Tijuana, for example, six companies ceased operations and two reduced their output, but three new companies set up shop and five expanded their operations. (Baja California)

¶9. (U) SUMMARY OF NAFINSA AND BANCOMEXT ECONOMIC AID: In a June 25 presentation to local businessmen, Hector Rangel, the director of the National Development Bank (NAFINSA) and National Export Bank (BANCOMEXT), outlined what his organizations have done to combat the economic recession and increase the flow of credit in Mexico. Most of the aid disbursed by these two entities is designed for small and medium sized businesses (PYMES) that are responsible for 73% of all employment in Mexico.
-- NAFINSA has committed the federal government to awarding 20% or approximately US$10.4 billion of its annual purchases to PYMES, a 50% increase compared to the previous year.
--NAFIN has provided US$3.2 billion in loan guarantees to PYMES since the start of the crisis, with a goal of reaching US$4 billion by the end of 2009.
--Rangel has created programs to provide references, training, and guarantees to help PYMES join supply chains of public sector institutions such as universities and PEMEX, the state owned oil company.
--BANCOMEXT has supplied US$730 million in direct financing and loan guarantees to automotive companies to

help keep them operating through the GM and Chrysler restructurings. Mexico exports over a US$1 billion in auto parts annually to the United States.
--To offset the economic blow of the H1N1 flu, NAFINSA has made available financing to companies in the tourism industry. NAFINSA is able to provide tourism related companies new low fixed-rate loans, an extension of payment terms, and, in some cases, loan forgiveness.
(Monterrey)

ENERGY AND ENVIRONMENT:

¶10. (U) RENEWABLE ENERGY PROJECTS BRING OPPORTUNITIES TO CHIHUAHUA: On June 9, the Spanish wind turbine producer, Preneal, announced that it has initiated a feasibility study to determine the environmental and financial potential of installing a 2,000 hectare (4,940 acres) wind farm approximately 20 miles southwest of Ciudad Juarez. A Preneal representative explained that the wind farm will generate 100 megawatts of energy, which the company could potentially sell to Mexico's state-owned electricity company, Comision Federal de Electricidad (CFE). For the investment to generate a positive net present value, the wind farm will require a minimum wind speed of 15 km per hour for at least 2,500 hours annually. The feasibility study will reportedly take 8 months to complete. In addition to the Chihuahua wind farm, Preneal plans to begin operations on a 400 megawatt wind farm in Oaxaca, Mexico in 2010. Meanwhile, the U.S. electronics manufacturer, Jabil Circuit, announced on June 10 that it will invest $US 15 million into its Chihuahua City plant to produce solar panels for the California-based SunPower Corp. The decision to shift production to Chihuahua is part of SunPower Corps' long-term strategy to increase its panel assembly production in Mexico to reduce production costs, said the company's Chief Operating Officer Marty Neese in a press release. Solar panel production will begin at the Chihuahua plant in the second half of 2009 and will create 900 jobs.
(Ciudad Juarez)

TRANSPORTATION AND INFRASTRUCTURE:

¶11. (U) AIR TRAFFIC: AWFUL MAY FOLLOWS POOR FIRST QUARTER: A slew of new data underlines statistically the dismal results air carriers, airport operators, and civil aviation authorities have reported to the Embassy in recent months. International Air Transport Association (IATA) figures for May show scheduled air traffic in Mexico fell 40% relative to 2008. This flu-inspired decline was the world's worst in May. The worldwide decline was a still-bad 9.3%, but blamed largely on recession vice flu. At 64.7% and dragged down by Mexico, the Latin America-wide load factor was the weakest in the world in May. Mexico's Secretariat of Tourism estimates the fall in passenger volume for the period from 24 April to 24 May at 52.2%, with Cancun (63.3%) and Puerto Vallarta (58.6%) worst hit. Passenger volume in Mexico City fell 45.9%. Public and private airport operators across Mexico reported weak revenue for the first quarter. Public fuel distributor Aeropuertos y Servicios Auxiliares (ASA), which operates 20 airports across the country with cash from fuel sales, suffered its worst quarter on record, off 47.2%. With fewer flights needing less gas, revenue has dried up. Compounding the problem, Mexico's financially fragile airlines are not all paying promptly for the fuel they do use (notably Aviacsa, but also others). In a 25 June press conference

acknowledging his company's cash-strapped state, Aeromexico chief Andres Conesa proposed taking on debt against the carrier's ASA account. It is not clear whether ASA is in a position to field such a request. (Mexico City)

WILLIARD